



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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WENDY L. WATANABE
ACTING AUDITOR-CONTROLLER

April 2, 2008

TO: Supervisor Yvonne B. Burke, Chair
Supervisor Gloria Molina
Supervisor Don Knabe
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe *Wendy Watanabe*
Acting Auditor-Controller

SUBJECT: 2007 W-2 STATE WAGE REPORTING ERROR

In January 2008, the Auditor-Controller distributed 111,431 W-2s to County employees. Recently, the Auditor-Controller discovered a payroll system error in the 2007 State wage reporting that impacted 108 employees and will be issuing corrected W-2s (Form W-2Cs) to these employees. This error did not have an impact for purposes of federal taxable wages.

Under State law, the Auditor-Controller reduces an employee's reportable State wage by the portion of medical and dental insurance benefits that covers an employee's Registered Domestic Partner, i.e., if the medical insurance costs the employee \$200 to cover a Registered Domestic Partner, that \$200 is deducted from employee's State wages reported to the State Franchise Tax Board.

In error, the monthly reduction to State wages of these 108 employees was deducted twice, instead of once, and resulted in understated employees' State wages totaling \$304,108.06 for 2007. This underreporting does not incur any additional wages to be paid by the County; however, the corrected State wages may require each employee to file an amendment to their individual State Income Tax filing (if the employee's 2007 tax return had already been filed). We will be advising these employees to consult their tax advisors for proper action.

We are currently analyzing years prior to 2007 and are working with County Counsel and outside tax attorneys to determine if there is any further impact. We will keep your Board informed when we conclude the analysis.

If you have any questions or other concerns, please contact me, or your staff may contact Gregg Iverson at (213) 974-8401.

WLW:RAD:GI

c: William T Fujioka, Chief Executive Officer
Raymond G. Fortner, County Counsel

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